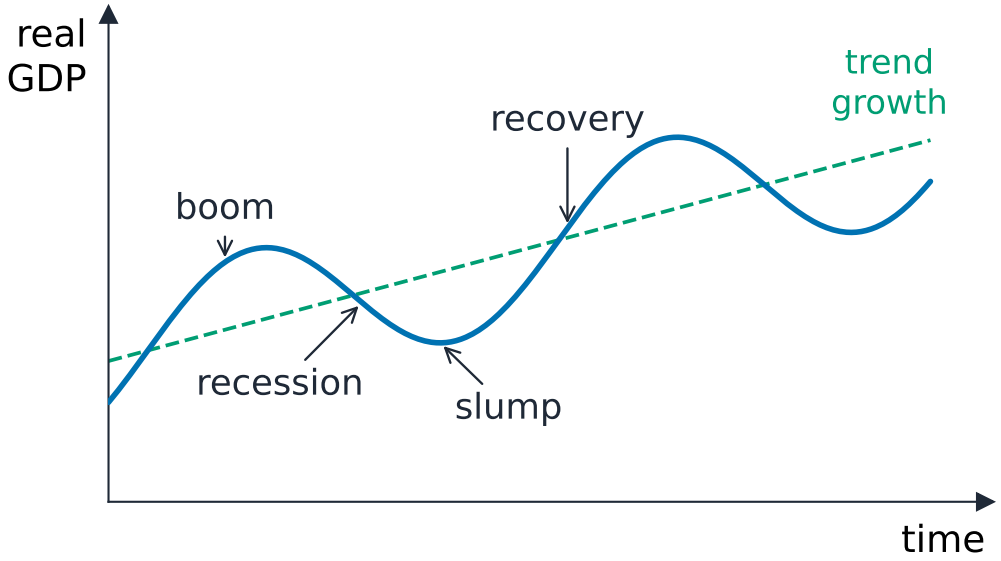
Exercise walk-through

4.4
Economic growth and government debt

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Figure: Measuring economic activity



- Real GDP rises and falls around its long-term **trend**
- Match each part of the diagram to the text.

Monetary policy

- the **policy interest rate** (the rate at which the **central bank** lends to commercial banks);
- **open market operations** : buying or selling government bonds to change the **money supply**;
- **minimum reserve requirements** : the share of deposits banks must keep and cannot lend. Lowering it lets banks lend more;
- **quantitative easing** (QE): large-scale bond buying with newly created money, used when interest rates are already near zero.

Fiscal policy

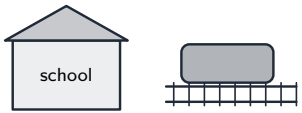
- Government revenue: **direct taxes** (on **income** and profits), **indirect taxes** (on spending, such as VAT), the sale of goods and services, and the sale of state-owned firms.
- Government spending: **current spending** (wages of teachers and doctors, medicines), **capital spending** (roads, schools, railways) and **transfer payments** (pensions, benefits).
- A **budget deficit** means spending is greater than revenue; a **budget surplus** means revenue is greater.

Exercises 2.1·2.2

2.1 Distinguish between a budget deficit and government debt. [2]



2.2 State **two** sources of long-term economic growth. [2]



Exercises 2.1·2.2

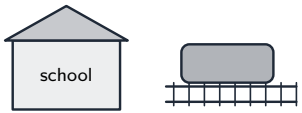
2.1 Distinguish between a budget deficit and government debt. [2]



2.1

budget deficit: government spending is greater than revenue in one year; government debt: the total amount owed, built up from past deficits

2.2 State **two** sources of long-term economic growth. [2]



2.2

any two: investment in physical capital / infrastructure; education and training (human capital); new technology; better institutions

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Exercise 2.3

2.3 Using a PPC diagram, distinguish between actual growth and potential growth. [4]



[[drawlines:4]]

Exercise 2.3

2.3 Using a PPC diagram, distinguish between actual growth and potential growth. [4]



[[drawlines:4]]

2.3

actual growth: a movement from a point inside the PPC towards the curve, using unemployed resources; potential growth: an outward shift of the PPC, from more or better resources or technology; correctly labelled diagram showing both

Exercise 3.1 (a)

3.1 A fast-growing economy has rising incomes but worsening air pollution and a widening gap between rich and poor.

(a) Define **economic growth**. [2]

Exercise 3.1 (a)

3.1 A fast-growing economy has rising incomes but worsening air pollution and a widening gap between rich and poor.

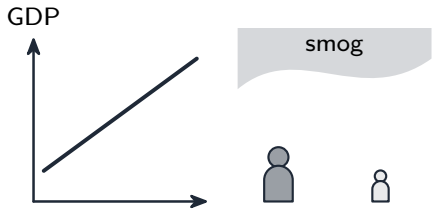
(a) Define **economic growth**. [2]

(a) an increase in real GDP; over a period of time, usually a year

Exercise 3.1 (b)

3.1 A fast-growing economy has rising incomes but worsening air pollution and a widening gap between rich and poor.

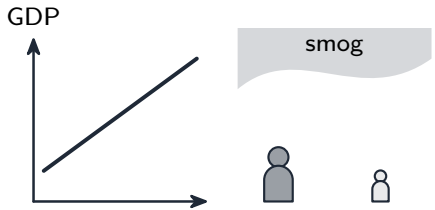
(b) Discuss the view that economic growth always raises living standards. [6]



Exercise 3.1 (b)

3.1 A fast-growing economy has rising incomes but worsening air pollution and a widening gap between rich and poor.

(b) Discuss the view that economic growth always raises living standards. [6]



(b) growth raises incomes, jobs and tax revenue for schools and health care; but pollution harms health and quality of life; widening inequality means many people gain little; resources may be used up, harming future generations: not sustainable; judgement: growth is necessary but not enough; its quality and distribution matter